

**Esterad Bank B.S.C. (c)**  
**CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL INFORMATION**  
**31 March 2024 (Reviewed)**

Commercial registration	:	58222-1 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Office 302, Building 1411 Road 4626, Block 346 Manama, Kingdom of Bahrain Telephone: 17518888
Directors	:	Sheikh Mohamed Bin Duaij Al Khalifa Ahmed Abdulwahed Ahmed Abdulrahman Bashar Mohamed Ebrahim Almutawa Robert Coleman Wages Isa Abdulrasool Abdulhusain Merza Jawahery
Acting Chief Executive Officer	:	Ahmed Abdulwahed Ahmed Abdulrahman
Auditors	:	KPMG Fakhro

Esterad Bank B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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For three months ended 31 March 2024

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# Independent auditors' report on review of condensed consolidated interim financial information

## To the Board of Directors

*Esterad Bank BSC (c)*  
*P.O. Box 11755 Manama*  
*Kingdom of Bahrain*

### Introduction

We have reviewed the accompanying 31 March 2024 condensed consolidated interim financial information of Esterad Bank BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2024;
- the condensed consolidated statement of income for the three-month period ended 31 March 2024;
- the condensed consolidated statement of total comprehensive income for the three-month period ended 31 March 2024;
- the condensed consolidated statement of changes in owners' equity for the three-month period ended 31 March 2024;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2024;
- the condensed consolidated statement of changes in off-balance sheet assets under management for the three-month period ended 31 March 2024; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Group is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with FAS 41, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review. However, because of the significance of the matters described in the Basis for Disclaimer of Conclusion section of our report, we are unable to complete our review to form a conclusion on the accompanying condensed consolidated interim financial information.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



#### Basis for Disclaimer of Conclusion

- 1) We draw attention to note 2 to the accompanying condensed consolidated interim financial information, which describe that during the period ended 31 March 2024, the Group incurred a net profit of USD 3,761 thousand and, as of that date, the Group had accumulated losses of USD 25,491 thousand resulting in negative equity attributable to shareholders of USD 19,000 thousand, and its total assets with maturities up to 12 months fell short of the Group's liabilities with similar maturity by USD 1,856 thousand. Furthermore, the Group has breached certain regulatory requirements as explained in note 3 to the condensed consolidated interim financial information. These conditions, together with the potential effect of the matters described in paragraphs 2 and 3 below, indicate that the going concern assumption used in the preparation of the accompanying condensed consolidated interim financial information is not appropriate. The accompanying condensed consolidated interim financial information does not contain any adjustments that may be warranted if the Group was unable to continue as a going concern nor do they adequately describe the basis for the going concern assumption.
- 2) The Group manages certain investments in a fiduciary capacity. The Group was found to be non-compliant with certain regulatory requirements in relation to the admission of certain investors, as well as other fiduciary responsibilities while the management has remedied and settled some of these irregularities, the Group remains exposed to potential claims in relation to these matters for which a provision of US\$ 1,372 thousand has been recognised in the condensed consolidated interim financial information based on management's best estimate of likely settlement amounts. Based on the current position of discussions and available evidence, we are unable to assess the amount and the timing of the settlement of these potential claims, if any. Consequently, we are unable to determine the adjustments that may be required to be made in the condensed consolidated interim financial information in relation to this matter.
- 3) As disclosed in note 10 to the condensed consolidated interim financial information, the Group had issued letters of guarantee to certain investment companies/projects. For one such letter of guarantee, the creditor to the investee has initiated legal action against the investee company and have demanded validation of the corporate guarantees provided by various shareholders of the investee company, including the Group, from which material liabilities could arise. The Group's share of the potential liability arising from this letter of guarantee is US\$ 17,608 thousand for which no provision has been recognised as at 31 March 2024. We are unable to determine the adjustments that may be required to be recorded in the condensed consolidated interim financial information in relation to this matter.

#### Disclaimer of Conclusion

Because of the significance of the matters described in the *Basis for Disclaimer of Conclusion* paragraph, we do not express a conclusion on the accompanying 31 March 2024 condensed consolidated interim financial information.

14 August 2024

Esterad Bank B.S.C. (c)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2024

		<b>31 March 2024</b>	<b>31 December 2023</b>
	<i>Note</i>	<b>USD '000 (Reviewed)</b>	<b>USD '000 (Audited)</b>
<b>ASSETS</b>			
Balances with banks		2,251	2,116
Placements with financial institutions		2,456	1,608
Investments	7	20,796	25,984
Funding to project companies		2,206	2,242
Other assets		1,369	1,193
Right-of-use asset		3,288	3,326
Property and equipment		4,021	3,999
<b>TOTAL ASSETS</b>		<b>36,387</b>	<b>40,468</b>
<b>LIABILITIES</b>			
Employee accruals		250	257
Ijarah liability		3,588	3,612
Other liabilities	9	27,166	36,557
<b>Total liabilities</b>		<b>31,004</b>	<b>40,426</b>
<b>EQUITY</b>			
Share capital		1,005	1,005
Statutory reserve		5,441	5,441
Investment fair value reserve		45	45
Accumulated losses		(25,491)	(29,252)
<b>Equity attributable to Shareholders</b>		<b>(19,000)</b>	<b>(22,761)</b>
Subordinated Mudharaba (AT1)	12	24,383	22,803
<b>Total equity</b>		<b>5,383</b>	<b>42</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>36,387</b>	<b>40,468</b>



Sheikh Mohamed Bin Duajj Al Khalifa  
Chairman



Ahmed Abdulwahed Ahmed Abdulrahman  
Board Member & Acting CEO

The attached notes 1 to 12 form part of this condensed consolidated interim financial information.

Esterad Bank B.S.C. (c)

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Three-months period ended 31 March 2024

	Note	Three-months ended 31 March	
		2024	2023
		USD '000 (Reviewed)	USD '000 (Reviewed) (Restated)
<b>REVENUE</b>			
Management fee		3,123	5,693
Other investment income		48	13
Net change in fair value of investments carried at fair value through income		(134)	2,420
Net realised fair value gains on exit of investment		1,291	-
Rental and other income		932	491
<b>Total revenue</b>		<b>5,260</b>	<b>8,617</b>
<b>EXPENSES</b>			
Staff cost		717	791
Legal and professional fees		226	283
Finance expense		43	81
Depreciation		95	97
Loss on settlement of liabilities		546	34
Other expenses		479	546
<b>Total expenses</b>		<b>2,106</b>	<b>1,832</b>
<b>PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>3,154</b>	<b>6,785</b>
Impairment of investments		(43)	(3,603)
Provision for credit losses	5	608	(679)
Impairment of property and equipment		42	-
<b>PROFIT FOR THE PERIOD</b>		<b>3,761</b>	<b>2,503</b>



Sheikh Mohamed Bin Duajj Al Khalifa  
Chairman



Ahmed Abdulwahed Ahmed Abdulrahman  
Board Member & Acting CEO

The attached notes 1 to 12 form part of this condensed consolidated interim financial information.

Esterad Bank B.S.C. (c)

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Three-months period ended 31 March 2024

		<i>Three-months ended</i>	
		<i>31 March</i>	
		<b>2024</b>	<b>2023</b>
<i>Note</i>		<b>USD '000</b>	<b>USD '000</b>
		<b>(Reviewed)</b>	<b>(Reviewed)</b>
			<b>(Restated)</b>
	<b>PROFIT FOR THE PERIOD</b>	<b>3,761</b>	2,503
	<b>Other comprehensive income (OCI)</b>		
	<b>Items that may subsequently be classified to income statement</b>		
	Fair value changes on investments carried at fair value through equity	-	51
	<b>Total other comprehensive income for the period</b>	-	51
	<b>Total comprehensive income</b>	<b>3,761</b>	<b>2,554</b>

The attached notes 1 to 12 form part of this condensed consolidated interim financial information.

Esterad Bank B.S.C. (c)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS EQUITY

Three-months period ended 31 March 2024

	<i>Share capital</i> USD '000	<i>Statutory reserve</i> USD '000	<i>Investment fair value reserve</i> USD '000	<i>Accumulated losses</i> USD '000	<i>Equity attributable to shareholders</i> USD '000	<i>Subordinated mudharaba AT1</i> USD '000	<i>Total</i>
<b>2024 (Reviewed)</b>							
Balance at 1 January 2024	1,005	5,441	45	(29,252)	<b>(22,761)</b>	22,803	<b>42</b>
Subordinated Mudharaba (AT1)	-	-	-	-	-	1,580	<b>1,580</b>
Profit for the period	-	-	-	3,761	<b>3,761</b>	-	<b>3,761</b>
<b>Balance at 31 March 2024</b>	<b>1,005</b>	<b>5,441</b>	<b>45</b>	<b>(25,491)</b>	<b>(19,000)</b>	<b>24,383</b>	<b>5,383</b>
<b>2023 (Reviewed and Restated)</b>							
Balance at 1 January 2023	1,005	5,441	537	(23,258)	(16,275)	-	(16,275)
Profit for the period	-	-	-	2,503	2,503	-	2,503
Subordinated Mudharaba (AT1) issuance cost	-	-	-	(130)	(130)	-	(130)
Other comprehensive income	-	-	51	-	51	-	51
Balance at 31 March 2023	<b>1,005</b>	<b>5,441</b>	<b>588</b>	<b>(20,885)</b>	<b>(13,851)</b>	<b>-</b>	<b>(13,851)</b>

The attached notes 1 to 12 form part of this condensed consolidated interim financial information.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three-months period ended 31 March 2024

	Note	2024 USD '000 (Reviewed)	2023 USD '000 (Reviewed) (Restated)
<b>OPERATING ACTIVITIES</b>			
Net profit / (loss) for the period		3,761	2,503
Adjustments for:			
Impairment of investments		43	3,603
Provision for credit losses		245	679
Impairment of property and equipment		(42)	-
Fair value gains on investments carried at fair value through profit or loss - net		134	(2,420)
Loss on sale of investments		295	-
Realised fair value gains on exit of investment		(1,291)	-
Depreciation		95	97
Finance cost on right-of-use asset		43	45
Dividends received		(10)	-
Gain from investment swaps	2	(293)	-
<b>Operating profit before changes in operating assets and liabilities</b>		<b>2,980</b>	<b>4,507</b>
Changes in operating assets and liabilities:			
Investments		7,890	(332)
Receivables		-	(6,591)
Funding to project companies		751	-
Property and equipment		(37)	(17)
Other assets		(210)	(52)
Employee accruals		(7)	31
Islamic finance		-	36
Other liabilities		(9,391)	2,021
Placements with financial institutions (maturity more than 3 months)		(111)	(228)
<b>Net cash from / (used in) operating activities</b>		<b>1,865</b>	<b>(625)</b>
<b>FINANCING ACTIVITIES</b>			
Murabaha financing to investee company		(923)	(60)
Subordinated Mudharaba (AT1) issuance cost		-	(130)
Rent paid towards right-of-use asset		(67)	(66)
<b>Net cash used in financing activities</b>		<b>(990)</b>	<b>(256)</b>
Investment fair value reserve		-	51
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>875</b>	<b>(830)</b>
Cash and cash equivalents at beginning of the period		3,591	2,861
ECL reversed on balances with banks and Placements with financial institutions		(3)	1
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>4,463</b>	<b>2,032</b>
<b>Represented by:</b>			
Balances with banks		2,251	1,966
Placements with financial institutions (maturity less than three months )		2,212	66
		<b>4,463</b>	<b>2,032</b>

Placements with financial institutions (with maturity more than three months) are USD 244 thousand (2023: USD 133 thousand)

Esterad Bank B.S.C. (c)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE-SHEET ASSETS UNDER MANAGEMENT

Three-months period ended 31 March 2024

2024 (Reviewed)	Opening	Movement during the period		Group	NAV	Closing
	Balance	Additions	Distributions / Exits *	Fees	Movement	Balance
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Private Equity	167,338	5,830	(363)	(79)	67,893	240,620
Real Estate	109,541	2,575	(3,525)	(3,044)	(19,749)	85,798
Restricted investments	125	-	-	-	(32)	93
<b>Balance at 31 March 2024</b>	<b>277,004</b>	<b>8,405</b>	<b>(3,888)</b>	<b>(3,123)</b>	<b>48,112</b>	<b>326,511</b>
	Opening	Movement during the period		Group	NAV	Closing
2023 (Audited)	Balance	Additions	Distributions / Exits	Fees	Movement	Balance
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Private Equity	189,593	2,119	(946)	(6,748)	(16,680)	167,338
Real Estate	140,441	-	(2,277)	(4,745)	(23,878)	109,541
Restricted investments	120	-	-	-	5	125
Balance at 31 December 2023	330,154	2,119	(3,223)	(11,493)	(40,553)	277,004

**FIDUCIARY ASSETS UNDER MANAGEMENT**

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these condensed consolidated interim financial information. The Bank has assessed the need for creating a liability in the books for any potential claim that may arise and has made adequate provisions as the Bank believes is necessary.

\* Exits during the period represent Subordinated Mudharaba AT1 (Additional Tier 1 Capital Sukuks "Sukuk") issued by the Bank in exchange for investments managed by the Bank (note 2).

As at 31 March 2024

**1 REPORTING ENTITY****Incorporation**

Esterad Bank B.S.C (c) (formerly known as Venture Capital Bank B.S.C. (c)) (hereafter referred to as “the Bank”) was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry and Commerce (“MOIC”). The Bank is licensed as a wholesale Islamic bank by the Central Bank of Bahrain (“CBB”) and is subject to the regulations and supervision of the CBB. The Bank’s registered office is Building 1411, Road 4626, Block 346, Sea Front, Manama, Kingdom of Bahrain.

The Bank is currently 99.5% owned by Esterad Investment Company B.S.C (c) (hereafter referred to as “EIC”), a Bahraini public joint stock company listed in Bahrain Bourse. EIC does not have control over the relevant activities of the Bank as the Bank’s operations are currently subject to restrictions imposed by the regulator due to capital deficiencies.

This condensed consolidated financial information was approved by the Bank’s Board of Directors on 14 August 2024.

**Activities**

The principal activities of the Bank comprise venture capital, real estate and private equity investment transactions and related investment advisory services. The Bank conducts all its activities in compliance with Islamic Shari’ah under the guidance and supervision of the Bank’s Shari’ah Supervisory Board, and in compliance with applicable laws and regulations.

The condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the period ended 31 March 2024. The financial statements of the subsidiaries are prepared using the same reporting period, using consistent accounting policies. The comparative numbers of the financial statements have been extracted from the latest audited/ reviewed financial statements/ information which has been subsequently restated.

There is no change in the percentage holding of these subsidiaries during the year. Key subsidiaries of the Group which are consolidated are as follows:

<b>Name of subsidiary</b>	<b>Year of incorporation</b>	<b>% holding</b>	<b>Country of incorporation</b>	<b>Principal activities</b>
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank car park building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	54.06%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain. The Group acquired control of the entity in June 2018.
VCB Investment Advisors LTD	2006	100%	Cayman Island	A special purpose vehicle incorporated in Cayman Island for collection of management fees - Dormant entity.

\* The Group’s investment in GMCB Co. W.L.L. is not consolidated on a line by line basis as control is deemed to be temporary in nature since GMCB Co. W.L.L. is in the process of liquidation.

The unconsolidated subsidiary classified under Investments held for sale has a carrying value of USD NIL (31 December 2022: USD NIL)

On 23 January 2023, an EGM of the shareholders was held, where the shareholders resolved to change the financial year end from 30 June to 31 December effective from 31 December 2022.

On 15 February 2024, an EGM of the shareholders was held, where the shareholders resolved to change the name of the Bank from Venture Capital Bank B.S.C (c) to Esterad Bank B.S.C (c).

## 2 FUNDAMENTAL ACCOUNTING ASSUMPTION

### Going concern assessment

The Group incurred a net profit of USD 3,761 thousand during the period and, as at 31 March 2024, the Group had negative equity attributable to shareholders of USD 19,000 thousand. The Group issued Subordinated Mudharaba (AT1) of USD 24,383 thousand. The total equity of the Group as of 31 March 2024 was USD 5,383 thousand, having accumulated losses of USD 25,491 thousand and the total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 1,856 thousand.

During the period, the Bank continues to be in breach of a number of regulatory requirements including minimum capital adequacy ratios. These conditions indicate the Group is not a going concern.

However, the management has prepared the condensed consolidated interim financial information on a going concern basis for the following reasons:

(i) The acquisition of the Bank by EIC will enable the Group to continue as a going concern and to negotiate settlement of its obligations to third parties as and when they fall due. Additionally, the shareholders or the regulators did not have any intention to liquidate the Bank, and intend to revive the business model to operate on a Going concern basis.

(ii) In an effort to meet minimum capital requirements, the Group issued Subordinated Mudharaba AT1 (Additional Tier 1 Capital Sukuk "Sukuk") to its existing investors upon obtaining the necessary regulatory approvals. The sukuk were issued in exchange liabilities owed by the Group and for investments managed by the Bank where these investors were participants. The investments swapped were valued at 80% of the fair value of the investments and the group recorded a profit of USD 293 thousand during the period.

During the period, the Group issued Subordinated Mudharaba AT1 to its investors amounting to USD 1.5 million and a total of US 24.3 million as of the date of this statement of financial position.

(iii) The management is in advanced stages of discussions with the regulator on a restructuring plan for the Bank in order to address existing regulatory concerns and better position itself for recovery and stability. As part of its restructuring efforts, management is in the process of formulating a strategic business plan which will provide a clear path for the business' long term growth and sustainability.

(iv) With the improved performance of certain investments, the Bank has resumed collecting management fees. The Bank has also successfully listed 2 of its portfolio investments in Turkey, which will generate additional liquidity at the time of exit. Management expects to generate sufficient liquidity in the short term to cover ongoing operating costs and provide funding to support its restructuring plan and meet its near-term obligations.

Accordingly, based on the above developments, the Board of Directors is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the consolidated financial statements have been prepared on a going concern basis.

## 3 REGULATORY NON-COMPLIANCE

The Bank did not comply with the CBB's capital requirements for minimum shareholders' equity, total CAR, Tier 1 and CET 1 CAR, NSFR and other associated regulated requirements which are required for Bahrani Islamic wholesale bank during the period ended 31 March 2024. The Bank is also not in compliance with other regulatory requirements by the CBB and the Commercial Companies Law ("CCL").

Due to breach in CBB's capital adequacy requirements, the CBB has imposed certain restrictions on the Bank's investment banking activities where the Bank is prohibited from undertaking any new investment exposure without CBB's prior approval. The Bank has initiated various actions, including increasing capital, exit from existing investments and re-launching the asset management activities in order to regain compliance and restart new business activity.

The Bank received an exemption from the CBB for the breach in the Capital Adequacy Ratio in relation to paragraphs LM-11.1.4, LM-12.3.3 and CM-2.5.3 of the CBB Rulebook and also obtained the approval to increase the Regulatory Capital by issuing the Sukuks.

#### 4 BASIS OF PREPARATION AND ACCOUNTING POLICIES

##### 4.1 Basis of preparation

The condensed consolidated interim financial information of the Group has been prepared in accordance with Financial Accounting Standard FAS 41, Interim Financial Reporting ("FAS 41") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI"). In line with the requirements of AAOIFI and the Central Bank of Bahrain (CBB) rule book, for matters not covered under AAOIFI standards the group uses guidance from the relevant IFRS Accounting Standard issued by the International Accounting Standards Board.

The condensed consolidated interim financial information is reviewed and not audited. The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended 31 December 2023. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2023.

##### 4.2 Basis of measurement

This condensed consolidated financial statements has been prepared under the historical cost convention as modified for the remeasurement at fair value of investment securities, and are presented in United States Dollars (USD) which is also the functional currency of the Group. All values are rounded off to the nearest thousand (USD '000) unless otherwise indicated.

##### 4.3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information is the same as those used in the preparation of the Group's last audited consolidated financial statements, except those arising from adoption of the following standards and amendments to standards effective from 1 January 2024. The impact of adoption of these standards and amendments is set out below.

#### A New standards, amendments and interpretations issued and effective for annual periods beginning on or after 1 January 2024:

(i) *FAS 1 General Presentation and Disclosures in the Financial Statements*

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2024 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. Significant changes relevant to the Group are a) Definition of Quasi-equity is introduced; b) Concept of comprehensive income has been introduced; and c) Disclosure of movement in Zakah and Charity have been relocated disclosed into the notes to the condensed consolidated financial information.

During the period, the Group has adopted FAS 1 revised. As a result of this adoption following changes were made to the primary statements of the Group. Below is a summary of the new primary statements:

#### Primary statements introduced

- Statement of total comprehensive income
- Statement of changes in off-balance-sheet assets under management

**4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**4.3 Significant accounting policies (continued)**

**B New standards, amendments and interpretations issued but not yet effective**

(i) *FAS 46: Off-Balance-Sheet Assets Under Management*

AAOIFI has issued Financial Accounting Standard ("FAS") 46 "Off-Balance-Sheet Assets Under Management" during 2023. The objective of this standard is to establish principles and rules for recognition, measurement, disclosure, and derecognition of off-balance-sheet assets under management, based on Shari'ah and international best practices. The standard aims to improve transparency, comparability, accountability, and governance of financial reporting related to off-balance-sheet assets under management.

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:

- The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and
- An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi Equity (Including Investment Accounts)". The Group does not expect any significant impact on the adoption of this standard.

(ii) *FAS 47: Transfer of Assets Between Investment Pools*

AAOIFI has issued Financial Accounting Standard ("FAS") 47 "Transfer of Assets Between Investment Pools" during 2023. The objective of this standard is to establish guidance on the accounting treatment and disclosures for transfers of assets between investment pools that are managed by the same institution or its related parties. The standard applies to transfers of assets that are not part of a business combination, a disposal of a business, or a restructuring of an institution.

The standard defines an investment pool as a group of assets that are managed together to achieve a common investment objective, such as a fund, a portfolio, or a trust. The standard also defines a transfer of assets as a transaction or event that results in a change in the legal ownership or economic substance of the assets, such as a sale, a contribution, a distribution, or a reclassification.

The transfer of assets between investment pools should be accounted for based on the substance of the transaction and the terms and conditions of the transfer agreement. The standard classifies transfers of assets into three categories: transfers at fair value, transfers at carrying amount, and transfers at other than fair value or carrying amount. The standard also specifies the disclosure requirements for transfers of assets between investment pools.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt. The Group does not expect any significant impact on the adoption of this standard.

**4.4 Estimates and judgements**

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the audited consolidated financial statements as at and for the year ended 31 December 2023.

**4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****4.5 Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's audited consolidated financial statements for the year ended 31 December 2023.

**4.6 SEASONALITY**

Due to the inherent nature of the Group's business, the three-month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

**4.7 COMPARATIVES**

The comparative figures have been regrouped in order to conform with the presentation for current period. Such regrouping did not affect previously reported profit for the period or total equity.

**5 IMPAIRMENT OF FINANCIAL ASSETS**

	<b>31 March 2024 (Reviewed)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>
<b>Gross exposures subject to ECL</b>				
Balances and placements with banks	2,261	-	-	2,261
Placements with financial institutions	2,456			2,456
Murabaha financing to investee companies	-	-	7,346	7,346
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	-	4,853	4,853
Funding to project companies	-	2,450	1,062	3,512
Other assets	180	1,255	10,624	12,059
Guarantees and commitments	3,009	415	17,608	21,032
<b>Total gross exposure</b>	<b>7,906</b>	<b>4,120</b>	<b>54,834</b>	<b>66,860</b>
Impairment provision	<b>(18)</b>	<b>(1,170)</b>	<b>(36,367)</b>	<b>(37,555)</b>
<b>Net exposures</b>	<b>7,888</b>	<b>2,950</b>	<b>18,467</b>	<b>29,305</b>
	<b>31 December 2023 (Audited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>
<b>Gross exposures subject to ECL</b>				
Balances and placements with banks	2,121	-	-	2,121
Placements with financial institutions	1,610			1,610
Murabaha financing to investee companies	-	-	6,423	6,423
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	-	4,853	4,853
Funding to project companies	-	3,202	1,061	4,263
Other assets	115	1,366	10,368	11,849
Guarantees and commitments	3,009	415	17,391	20,815
<b>Total gross exposure</b>	<b>6,855</b>	<b>4,983</b>	<b>53,437</b>	<b>65,275</b>
Impairment provision	<b>(15)</b>	<b>(1,855)</b>	<b>(35,440)</b>	<b>(37,310)</b>
<b>Net exposures</b>	<b>6,840</b>	<b>3,128</b>	<b>17,997</b>	<b>27,965</b>

As at 31 March 2024

**6 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent associated companies, shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties, the Shari'ah supervisory board and external auditors. Pricing policies and terms of these transactions are approved by the Group's management.

Balances with related parties are as follows:

	<b>31 March 2024</b>	<i>31 December 2023</i>
	<b>USD '000 (Reviewed)</b>	<i>USD '000 (Audited)</i>
<b>Assets:</b>		
Investments	<b>876</b>	723
<b>Liabilities:</b>		
Employee accruals	<b>135</b>	124
Other liabilities	<b>17,459</b>	19,775

Transactions with related parties during the period were as follows:

	<i>Three-months ended</i>	
	<b>31 March 2024</b>	<i>31 March 2023</i>
	<b>USD '000 (Reviewed)</b>	<i>USD '000 (Reviewed)</i>
<b>Other losses</b>		
Fair value losses on investments carried at fair value through profit or loss - net	<b>3</b>	-
<b>Expenses</b>		
Legal and professional fees	<b>67</b>	73
Other expenses	<b>128</b>	203
Provision for credit losses	<b>-</b>	1

Compensation for key management, including executive officers, comprises the following:

	<i>Three-months ended</i>	
	<b>31 March 2024</b>	<i>31 March 2023</i>
	<b>USD '000 (Reviewed)</b>	<i>USD '000 (Reviewed)</i>
Salaries and other short term benefits	<b>249</b>	103
Post-employment benefits	<b>110</b>	21
	<b>359</b>	124



As at 31 March 2024

**7 INVESTMENTS**

	<b>31 March 2024</b>	31 December 2023
	<b>USD '000</b>	USD '000
	<b>(Reviewed)</b>	(Audited)
<b>Investments at fair value through income</b>		
Quoted equities held for trading (note 7.1)	<b>2,917</b>	6,853
Unquoted equities	<b>6,158</b>	5,419
Short term liquidity certificates (note 7.2)	<b>8,603</b>	8,695
	<b>17,678</b>	20,967
<b>Investments at fair value through equity</b>		
Unquoted equities	<b>266</b>	1,980
Short term liquidity certificates (note 7.2)	<b>2,852</b>	3,037
	<b>3,118</b>	5,017
	<b>20,796</b>	25,984

7.1 During the period, investments with carrying value of USD 5,830 (31 December 2023: USD 4,540 thousand) were transferred to a related party in settlement of debts due to them. A fair value gain of USD 1,291 was recognised on the investment prior to the transfer.

7.2 Short term liquidity certificates comprise Shari'ah compliant asset backed certificates for which the carrying value approximates fair value.

The table below illustrates the movement in impairment provision during the year:

	<b>31 March 2024</b>	31 December 2023
	<b>USD '000</b>	USD '000
	<b>(Reviewed)</b>	(Audited)
Balance at 1 January	<b>19,448</b>	23,979
Adjustments in impairment provisions	<b>3,612</b>	(7,546)
Exit of investments	<b>(5,413)</b>	(3,409)
Charge for the year	<b>43</b>	6,424
	<b>17,690</b>	19,448

The following market segments for investment:

	<b>31 March 2024</b>	31 December 2023
	<b>USD '000</b>	USD '000
	<b>(Reviewed)</b>	(Audited)
Real estate projects	<b>13,943</b>	15,651
Private equity	<b>6,853</b>	10,333
	<b>20,796</b>	25,984

**8 WAKALA CONTRACT RECEIVABLE**

Wakala contract receivable represents USD 13,341 thousand of short-term trade finance deals through a locally incorporated bank ("Wakil") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group has recognised an ECL of 100% on the wakala contract (31 December 2023: 100%) under stage 3.

The Group suspended accruing profit on its wakala contract receivable as the Wakil has failed to redeem the Group's wakala upon their request.

As at 31 March 2024

**9 OTHER LIABILITIES**

	<b>31 March</b>	<b>31 December</b>
	<b>2024</b>	<b>2023</b>
	<b>USD '000</b>	<b>USD '000</b>
	<b>(Reviewed)</b>	<b>(Audited)</b>
Payable under settlement agreement *	9,279	9,292
Provision against guarantees **	6,231	7,154
Accounts payable	5,141	5,476
Settlements with a Related party ***	4,285	6,385
Provisions and accruals****	2,199	8,180
Deferred income	29	33
Other	2	37
	<b>27,166</b>	<b>36,557</b>

\* Amount payable under settlement agreement represents past due profits on Islamic financing payable settled as of 30 June 2021. The amount is due on 30 June 2025.

\*\* Guarantees relate to corporate guarantees provided by the Group to various creditors to support financing to one of its project companies. The Group received certain legal claims from creditors which the Group is currently in the process of assessing its legal position. Management has found it prudent to recognise provisions against such claims on its condensed consolidated statement of financial position along with appropriate provisions.

\*\*\* The Group entered into an Investment Management and Revenue Sharing Agreement with the major shareholder in order to improve the quality of the assets under management and maximise the generation of revenue.

\*\*\*\* Provisions and accruals include provision for potential claims from investors for some project companies where the Bank was found to be non-compliant with certain regulatory requirements in relation to the admission certain investors.

**10 COMMITMENTS AND CONTINGENCIES**

The Group has outstanding letters of guarantee in respect of projects, and commitments to finance and invest as follows:

	<b>31 March</b>	<b>31 December</b>
	<b>2024</b>	<b>2023</b>
	<b>USD '000</b>	<b>USD '000</b>
	<b>(Reviewed)</b>	<b>(Audited)</b>
Letters of guarantee	21,032	20,815
	<b>21,032</b>	<b>20,815</b>

During the prior years, certain letters of guarantee, which were provided for in the books were recognised as a liability. Accordingly, the Bank has recognised a liability of USD 6,231 (31 December 2023: 7,154 thousand) on these outstanding letters of guarantees.

**Litigations and claims**

The Bank had issued a letter of guarantee to a certain investment company/project valued at 130% of the Bank's share in the company's outstanding obligation (including principal and accrued profits) of USD 17,608 thousand (31 December 2023: USD 17,390 thousand). In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations.

As at 31 March 2024

**11 FINANCIAL INSTRUMENTS**

Set out below is a classification of financial instruments held by the Group as at 31 March 2024 and 31 December 2023:

	<i>31 March 2024 (Reviewed)</i>			
	<i>Fair value through income USD '000</i>	<i>Fair value through equity USD '000</i>	<i>Amortised cost USD '000</i>	<i>Total USD '000</i>
<b>ASSETS</b>				
Balances with banks	-	-	2,251	2,251
Wakala placements with financial institutions	-	-	2,456	2,456
Investments	17,678	3,118	-	20,796
Funding to project companies	-	-	2,206	2,206
Other assets	-	-	1,213	1,213
<b>TOTAL FINANCIAL ASSETS</b>	<b>17,678</b>	<b>3,118</b>	<b>8,126</b>	<b>28,922</b>
<b>LIABILITIES</b>				
Other liabilities	-	-	14,420	14,420
Ijarah liability	-	-	3,588	3,588
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>18,008</b>	<b>18,008</b>
	<i>31 December 2023 (Audited)</i>			
	<i>Fair value through income USD '000</i>	<i>Fair value through equity USD '000</i>	<i>Amortised cost USD '000</i>	<i>Total USD '000</i>
<b>ASSETS</b>				
Balances with banks	-	-	2,116	2,116
Wakala placements with financial institutions	-	-	1,608	1,608
Investments	20,967	5,017	-	25,984
Funding to project companies	-	-	2,242	2,242
Other assets	-	-	1,105	1,105
<b>TOTAL FINANCIAL ASSETS</b>	<b>20,967</b>	<b>5,017</b>	<b>7,071</b>	<b>33,055</b>
<b>LIABILITIES</b>				
Other liabilities	-	-	14,768	14,768
Ijarah liability	-	-	3,612	3,612
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>18,380</b>	<b>18,380</b>

As at 31 March 2024

**11 FINANCIAL INSTRUMENTS (CONTINUED)****Fair value**

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 March 2024 and 31 December 2023, the fair value of bank balances, placements with financial institutions, other financial assets, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and

**Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The table below analyses financial instruments, measured at fair value as at the end of the period, by level in the fair value hierarchy into which the fair value measurement is categorized:

**Fair value of investments**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>
<b>31 March 2024 (Reviewed)</b>				
Investment securities carried at fair value				
- income statement	2,873	43	14,762	17,678
- equity	-	-	3,118	3,118
	<u>2,873</u>	<u>43</u>	<u>17,880</u>	<u>20,796</u>
<b>31 December 2023 (Audited)</b>				
Investment securities carried at fair value				
- income statement	6,811	42	14,114	20,967
- equity	-	-	5,017	5,017
	<u>6,811</u>	<u>42</u>	<u>19,131</u>	<u>25,984</u>

As at 31 March 2024

**11 FINANCIAL INSTRUMENTS (CONTINUED)**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets:

	<b>31 March 2024 USD '000 (Reviewed)</b>	<b>31 December 2023 USD '000 (Audited)</b>
At 1 January	19,131	19,216
Fair value losses recognised in the consolidated statement of income	(152)	(3,489)
Impairment recognised during the year	(43)	(6,424)
Fair value reserve	-	(492)
Sale of investments during the year	(3,814)	(4,552)
Transfers from level 3 to level 1 *	(584)	(6,811)
Additions during the year	1,957	5,264
Investments received on sukuk issuance	1,385	16,419
Closing balance	<u>17,880</u>	<u>19,131</u>

\* In 2024, one of the level 3 investments was enlisted on the stock exchange and accordingly the investment was reclassified from level 3 to level 1.

<b>Type</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
<b>Investment securities at FVTPL and FVTE</b>	Discounted cash flows: The valuation model considers the present value of the expected cash flows, discounted using a risk-adjusted discount rate.	Expected cash flows  Risk adjusted discount	The estimated fair value would increase (decrease) if: - the expected cash flows were higher (lower); or - the risk-adjusted discount rate were lower (higher).
	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of non-marketability of the equity securities, and revenue and EBITDA of the investee.	EBITDA multiple  Discount for lack of marketability	The estimated fair value would increase (decrease) if: - the EBITDA multiple were higher (lower); or - the discount for lack of marketability were lower (higher).
	Adjusted net assets values of investee where major assets valued at fair value	Adjusted net assets	The estimated fair value would increase (decrease) if: - the adjusted net assets were higher (lower).
	Comparable transaction prices	Not applicable	The estimated fair value would increase (decrease) if: the Comparable transaction prices were higher (lower).

As at 31 March 2024

**11 FINANCIAL INSTRUMENTS (CONTINUED)**

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effect:

	<b>31 March 2024</b>	31 December 2023
	<b>(Reviewed)</b>	(Audited)
	<b>USD 000</b>	USD 000
<b>Profit or loss</b>		
WACC (1% increase)	<b>(632)</b>	(1,169)
Comparable transaction price (10% increase)	-	215
Non-marketability factor (10% increase)	<b>(93)</b>	(116)
Net asset value (10% increase)	<b>180</b>	225
<b>At 31 December</b>	<b>(545)</b>	(845)
WACC (1% decrease)	<b>1,859</b>	1,394
Comparable transaction price (10% decrease)	-	(215)
Non-marketability factor (10% decrease)	<b>(83.00)</b>	105
Net asset value (10% decrease)	<b>(180)</b>	(225)
<b>At 31 December</b>	<b>1,596</b>	1,059

**12 SUBORDINATED MUDHARABA (AT1)**

The Bank issued Subordinated Mudharaba (AT1) {Additional Tier 1 Sukuk (“Sukuk”)} of USD 24 million, under an approval form the Central Bank of Bahrain. These perpetual Sukuk constitute a subordinated and unsecured Mudaraba arrangement between the Sukuk holders and the Bank. The Sukuk have precedence over only the Bank’s ordinary shareholders in terms of liens over Net Assets, and distributions. The Sukuk are recognized in Owners’ equity (net of all related Issuance costs). The Sukuk were issued by the Bank to:

- Certain creditors of the Bank (each a “Counterparty”), where the obligation of the Counterparty to pay the subscription price of the Sukuk was completely set off against the obligation of the Bank to pay the relevant certain Outstanding Amounts owed to that Counterparty and the Bank’s AT1 Capital increased accordingly.
- Certain Investors of the Bank (each an “Investor Counterparty”), where the obligation of the Investor Counterparty to pay the subscription price of the Sukuk was completely set off by the transfer of the title to certain investments owned by the Investor Counterparty and managed by the Bank, to the Bank.

The Sukuk carry a non-cumulative discretionary coupon of 6% of the nominal value of the Sukuk (the “coupon”), of which 4% will be partly paid in cash or in-kind, and the balance capitalized, at the option of the Bank on a semiannual basis. This is however subject to the Bank having a distributable funds available which include positive retained earnings and profits (excluding accumulated losses preceding the issuance of sukuk certificate). Profits paid to holders of the Sukuk are accounted for as an appropriation of profits when declared and distributed.

Movement in the retained earnings post issuance of the Sukuk is as below:

	<b>31 March 2024</b>	31 December 2023
	<b>USD '000</b>	USD '000
	<b>(Reviewed)</b>	(Audited)
Opening accumulated losses	<b>(33,196)</b>	(23,258)
Losses attributable to the period prior to issuance of AT1	-	(9,938)
Accumulated losses prior to issuance of AT1	<b>(33,196)</b>	(33,196)
Opening profits post issuance of AT1	<b>3,944</b>	-
Profits recognised post issuance of AT1	<b>3,761</b>	4,403
Adjustment of cost on issuance of AT1	-	(459)
Profit available for distribution to AT1 holders	<b>7,705</b>	3,944
Total accumulated losses	<b>(25,491)</b>	(29,252)